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November 18, 2004

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, D.C. 20554

RE: A La Carte and Themed Programming and Pricing Options for Programming Distribution on Cable Television and Direct Broadcast Satellite Systems, MB Docket No. 04-207

Dear Ms. Dortch:

On behalf of Viacom, I submit this letter in response to a letter sent on October 19, 2004 on behalf of the American Cable Association ("ACA").[1] The ACA letter calls on the Commission to examine pricing by cable networks before completing a report to Congress in the above-captioned docket. For the reasons discussed below, no such examination is required or warranted.

ACA tries to argue that major program suppliers *require* smaller cable companies to carry affiliated channels. While ACA concedes that Viacom allows cable operators to purchase any of Viacom's networks on a stand-alone basis or in any combination, ACA contends that the pricing structure of the program suppliers "*coerces*" small operators into carrying the bundle.

Viacom acknowledges that the prices at which it offers programming to cable and direct broadcast satellite operators are structured with discounts that encourage operators to carry multiple networks. It is Viacom's business judgment that by achieving broader distribution of its networks it is able to offer a more desirable product to advertisers and achieve greater efficiencies in selling advertising. However, I understand that there is no *requirement* that any operator, large or small, carry multiple Viacom networks.

[1] Letter to Ms. Marlene Dortch from Christopher C. Cinnamon, October 19, 2004.

Discounts are commonplace in our economy and are pro-consumer. Take breakfast cereal or laundry detergent or pet food, for example. Consumers find they can reduce the price per pound by buying a larger package. Another example: It is cheaper to buy a dozen donuts at Dunkin' Donuts than it is to buy nine donuts.[2] Depending on their needs, some consumers will choose the smaller package and some will choose the larger package; no consumer is being "coerced." Indeed, all consumers are being advantaged by providing them choices.

ACA offers up two examples of what it considers "coercive pricing strategies" by cable networks. One example it calls "buy less, pay more." ACA argues that in some cases a smaller bundle of networks is priced higher than a larger bundle that includes the same networks and additional networks. In one case, ACA claims that a cable operator will pay 20% more than the full bundle price, while receiving 30% fewer channels.

This is simply an example of a customer being offered a discount by purchasing the larger package. The phenomenon of "buy less, pay more" is routinely observed outside of the cable industry, as noted above. Cable and satellite operators are the beneficiaries of competition among programmers to achieve carriage. And, given the number of program services available to operators, programmers often provide incentives, such as a low initial price, in order to gain an opportunity to demonstrate the value of the programming to its target audience and garner wider distribution. Reducing the price of a network in this fashion is similar to a "slotting fee," a practice that is widespread, for example, among manufacturers seeking placement of products on grocery shelves. If an operator chooses to carry the larger bundle of networks, then the operator has decided it can make more money by being paid to carry the additional networks than it could make by carrying some alternative programming at prevailing prices.

ACA calls its other example "choose one, triple your cost." Under this example, ACA states that a programmer offers a bundle of program services for a single price, from which a per-network price can be calculated. The price for a single network, according to ACA, is 295% of the average price for networks in the bundle. The following table illustrates how such a pricing structure might arise. Network A is the most popular network being offered, and its stand-alone price, naturally, is above the price of some moderately popular networks and well above the price of some networks with less appeal. The price of the most popular network purchased alone, $1.00, is 300% of the average price per network in the bundle, or $0.33. Once one realizes that network prices differ based on their attractiveness, such a price structure is not even surprising, much less alarming. And it certainly is not coercive.

[2] A sampled Dunkin' Donuts store was selling individual donuts at $0.75, six for $3.99, and a dozen for $5.99. Purchasing nine donuts (six for $3.99 and three individual at $0.75 each) costs $6.24, more than the cost of a dozen.

Example of Individual and Bundled Pricing	
Network	**Price**
A	$1.00
B	$0.50
C	$0.20
D	$0.15
E	$0.10
F	$0.05
Total	$2.00
Average	$0.33
Network A / Average	300%

ACA complains that small cable operators are "coerced" into buying a bundle of networks when they would prefer to buy a single network. In reality, simply because of the quality and consumer desirability of the Viacom networks, few if any cable operators, including ACA members, would choose to carry only a single Viacom network even if Viacom's pricing structure were altered. As ACA itself has pointed out in its Comments, Viacom networks Nickelodeon, MTV and Spike are among the most popular networks available to cable operators.[3]

ACA members, themselves, no doubt use packaging and pricing discounts to encourage consumers to purchase more of an operator's services. For example, some operators are likely to offer to sell consumers high speed internet service at a discount if the consumer also subscribes to basic cable. Operators are also likely to reduce the price per premium service when multiple premium services are purchased relative to the stand alone price of a single premium service. These are no different than the types of incentives programmers use to sell programming to these operators. Cable operators hope to increase their sales by having consumers "save money" if they purchase more.

In sum, ACA's letter does not demonstrate that cable operators are "coerced" into buying multiple programming services, and presents no justification for the Commission to examine wholesale pricing practices.

Sincerely,

Michael G. Baumann
Senior Vice President

[3] Comments of the American Cable Association (filed July 12, 2004) at 9-10.